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C O N F I D E N T I A L SECTION 01 OF 03 ADDIS ABABA 000677

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TAGS: [ECON](#) [PGOV](#) [EAID](#) [ET](#)
SUBJECT: PARTY-STATALS: HOW THE RULING PARTIES'
"ENDOWMENTS" OPERATE

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Classified By: Ambassador Donald Yamamoto for reasons 1.4 (B) and (D).

SUMMARY

1. (C) Upon taking power in 1991, the ruling Tigrayan People's Liberation Front (TPLF) liquidated non-military assets held by the movement to found a series of companies whose profits would be used as venture capital to rehabilitate the war-torn Tigray region's economy. The TPLF bestowed a portion of this initial roughly US \$100 million to each of the three other component parties in the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition to establish similar endeavors in each of their home regions. While companies were initially established in the names of party loyalists, they were formally transferred to the Endowment Fund for the Rehabilitation of Tigray (EFFORT) under the "endowment" provisions within the Ethiopian civil code, which prevented individuals from withdrawing money from enterprises for their own gain. Although the Board of Directors of EFFORT closely monitors the finances and business plans for each company under its umbrella, EFFORT's books themselves are not subject to any transparent external review. Throughout the 1990s, EFFORT commissioned feasibility studies and provided capital for various commercial ventures throughout Tigray. In this decade, however, no new EFFORT ventures have been established despite significant profits, lending credibility to the popular perception that the ruling party and its members are drawing on endowment resources to fund their own interests or for personal gain. End Summary.

LIQUIDATED AID RESOURCES USED TO FOUND THE ENDOWMENTS

2. (C) Seeye Abraha (strictly protect), the Chief Executive Officer of EFFORT from 1995 until his expulsion from the TPLF in 2001, detailed EFFORT's founding and operations to Pol/Econ Chief in a two-hour discussion on March 17. Seeye noted that the TPLF had received huge amounts of international assistance, particularly from the United States, throughout the 1980s to support its struggle against the Derg government and to provide relief to the Tigrayan people. Whatever food or other in-kind support that they could use or transport into Tigray, they would. They sold the excess food and support items in Sudan for cash. At the end of the struggle, the TPLF incorporated

whatever military materiel it held into the Ethiopian military's inventory, kept all of its more than 100 transport lorries, and liquidated most of the remaining stock held. Seeeye estimated that in 1991 the TPLF had roughly \$100 million liquidated. Acknowledging that these resources did not belong to individual TPLF members, the party decided to use the funds as a perpetual relief mechanism for the Tigrayan people who suffered the costs of the struggle.

VENTURE CAPITAL TO REHABILITATE TIGRAY

13. (C) Initially, the party allocated a portion of the funds available to assist families of those who died in the struggle directly. The bulk, however, was used as venture capital to establish companies to generate perpetual income sources for new ventures. From 1991 to 1995, these companies were coordinated under the Economic Affairs Department of the TPLF under the leadership of Sebhat Nega. Convinced that party insiders were more loyal to the party than interested in personal gain, the initial companies were established with individual party insiders listed as the owners. Additional resources were used to fund feasibility studies for other local-resource intensive ventures of interest.

14. (C) In 1995, the Defense Minister and long-time confidant of Prime Minister Meles, Seeeye Abraha assumed control of the rehabilitation-intended entities. Recognizing the potential liability of having massive resources held in private names, Seeeye and the TPLF established EFFORT as a caretaker foundation for the rehabilitation efforts. Seeeye acknowledged that some

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capital had been lost in the years prior to his assuming control, but declined to give details. Having inherited only a relatively primitive civil code, the party decided that the "Endowment" provisions therein offered the best means to secure the resources available for rehabilitation without any loopholes to allow individuals to withdraw capital for personal gain. The TPLF gave a portion of its wealth to each of the other three parties in the EPRDF to establish their own endowment funds. The Amhara National Democratic Movement's (ANDM) endowment is called Tirit, the Southern Ethiopian People's Democratic Movement (SEPDM) founded Wendo Trading, and the Oromo People's Democratic Organization (OPDO) established Dinsho. (Note: While Seeeye confirmed that the TPLF provided funds for these other rehabilitation funds, which later became endowments, he never had direct involvement in any of those funds/endowments operations. End Note.)

15. (C) Once established under EFFORT, each company was transformed into a shareholder company. Seeeye argued that the TPLF's intention in the mid-1990s was for EFFORT to study, and then establish, profitable companies that used locally-available resources and provided employment for Tigray. Examples of firms established early include a transportation company to use the trucks used in earlier relief efforts, the Messebo Cement plant outside of Mekele, a trading house, and Almeda Garments outside of Mekele which would use cotton grown in Tigray as an input. Feasibility studies were done for a marble factory, a gold mine (in joint venture with Ghana's Ashanti Gold), and construction firms. EFFORT intended to establish companies under a Build-Operate-Transfer (BOT) model offering the sale of established companies to citizens through the sale of shares with the profits and proceeds going to fund new commercial ventures. EFFORT was charged with reviewing each company's finances and business plans. While EFFORT was controlled by a CEO and Board of Directors drawn solely from TPLF party loyalists, Seeeye confirmed that each company it controlled was managed and reviewed by professionals with significant expertise in each company's

relative sector. Managers were expected to keep and provide detailed financial accounting, but to transfer profits not being re-invested to EFFORT. EFFORT accounts were only internally reviewed by the party.

AN APPARENT SHIFT SINCE 2001

¶6. (C) During the rift within the TPLF in 2001, much of the EFFORT Board of Directors sided with their CEO Seeye and were expelled from the party. One who did not, Sebhat Nega, was rewarded with the CEO position. (Note: As Seeye has not been involved in EFFORT since 2001, and is now in the political opposition, his perceptions of EFFORT dynamics since 2001 may be skewed or intended to influence. Still, his long-term, close relationships with those who do remain in the party's top echelon and his -- and his family's -- attention to Tigray and continued friendships with many still in office, do lend some credibility to his analysis of EFFORT activities since ¶2001. End Note). According to Seeye, upon Sebhat's assumption of the CEO position, all EFFORT companies were re-registered from shareholder companies to private limited companies -- potentially reflecting a shift in the BOT approach previously pursued. While we do not know how profitable all of the EFFORT companies are, we can assume that government protectionism and excess demand in major sectors such as transportation, cement, and construction has ensured that many of the larger EFFORT companies are reaping large profits. At the same time, Seeye confirms that none of the ventures for which feasibility studies or analyses were conducted while he remained at EFFORT have been established in the interceding years -- suggesting that profits are not being rolled over into new Tigray rehabilitation endeavors, but diverted elsewhere.

¶7. (C) Seeye argued confidently that the business community's perception that EFFORT's and similar EPRDF parties endowments' companies receive preferential access to limited credit and/or foreign exchange stocks, or treatment on government bids and contracts, customs clearance, and

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import/export license is certainly true. He went so far as to argue that these "party-statals" likely receive preferences even over the special treatment received by state-owned enterprises. Seeye argued that, much like Sebhat Nega's removal from the TPLF Central Committee in 2006, his removal as CEO of EFFORT in late 2008 likely reflects tensions between Sebhat and Prime Minister Meles' wife Azeb Mesfin. While former regional Vice President of Tigray Abadi Zemo has taken over the CEO position at EFFORT, Seeye argued that Azeb's ascendance to the EFFORT Vice Chairmanship reflects an increasing consolidation of influence within the party and control over resources by Meles and Azeb.
YAMAMOTO